

Financial Report

Gravity Drainage District No. 1 of the
Parish of Livingston, State of Louisiana

A Component Unit of the Livingston Parish Council

December 31, 2002

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of
Gravity Drainage District No. 1 of the
Parish of Livingston, State of Louisiana.

I have audited the accompanying general purpose financial statements of Gravity Drainage District No. 1 of the Parish of Livingston, State of Louisiana, ("the District"), a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these general purpose financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Gravity Drainage District No. 1 of the Parish of Livingston, State of Louisiana, as of December 31, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated May 20, 2003, on my consideration of the District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Baton Rouge, Louisiana,
May 20, 2003.

Nail G. Fermani, CPA

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners of
Gravity Drainage District No. 1 of the
Parish of Livingston, State of Louisiana.

I have audited the general purpose financial statements of Gravity Drainage District No. 1 of the Parish of Livingston, State of Louisiana, ("the District"), a component unit of the Livingston Parish Council, as of and for the year ended December 31, 2002, and have issued my report thereon dated May 20, 2003. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the District's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk

that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting that I have reported to management of the District in a separate letter dated May 20, 2003.

This report is intended solely for the information and use of management, the Livingston Parish Council, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties.

Mic B. Fermani, CPA

Baton Rouge, Louisiana
May 20, 2003.

GENERAL PURPOSE FINANCIAL STATEMENTS

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

**Gravity Drainage District No. 1 of the Parish of Livingston, State of Louisiana
A Component Unit of the Livingston Parish Council**

December 31, 2002

	<u>Governmental</u>		
	<u>Fund Type</u>	<u>Account Group</u>	
	<u>General</u>	<u>General</u>	<u>Total</u>
	<u>Fund</u>	<u>Fixed</u>	<u>(Memorandum</u>
		<u>Assets</u>	<u>Only)</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 789,143	\$ 0	\$ 789,143
Investments	389,497	0	389,497
Revenues receivable:			
Ad valorem tax	265,578	0	265,578
Allowance for uncollectible ad valorem tax	(13,821)	0	(13,821)
Sales tax	30,060	0	30,060
Revenue sharing	35,269	0	35,269
Deposits	2,241	0	2,241
Land, building, equipment, furniture & vehicles	<u>0</u>	<u>936,478</u>	<u>936,478</u>
 Total assets	 <u>\$ 1,497,967</u>	 <u>\$ 936,478</u>	 <u>\$ 2,434,445</u>
 <u>LIABILITIES, FUND EQUITY, AND OTHER CREDITS</u>			
<u>Liabilities:</u>			
Accounts payable	\$ 12,687	\$ 0	\$ 12,687
Deferred State revenue sharing	35,269	0	35,269
Deferred ad valorem tax revenues	<u>14,911</u>	<u>0</u>	<u>14,911</u>
 Total liabilities	 <u>62,867</u>	 <u>0</u>	 <u>62,867</u>
 <u>Equity and Other Credits:</u>			
Investment in general fixed assets	0	936,478	936,478
Fund balances:			
Designated for Gray's Creek Diversion Project	131,258	0	131,258
Unreserved/undesignated	<u>1,303,842</u>	<u>0</u>	<u>1,303,842</u>
 Total equity and other credits	 <u>1,435,100</u>	 <u>936,478</u>	 <u>2,371,578</u>
 Total liabilities, equity and other credits	 <u>\$ 1,497,967</u>	 <u>\$ 936,478</u>	 <u>\$ 2,434,445</u>

The accompanying notes are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GENERAL FUND**

Gravity Drainage District No. 1 of the Parish of Livingston, State of Louisiana
A Component Unit of the Livingston Parish Council

For the Year Ended December 31, 2002

	<u>General Fund</u>
<u>REVENUES</u>	
Taxes:	
Sales	\$ 455,859
Ad valorem	289,748
Interest income from late payment of ad valorem taxes	1,860
Intergovernmental:	
State of Louisiana revenue sharing	21,332
Investment income	<u>27,613</u>
 Total revenues	 <u>796,412</u>
 <u>EXPENDITURES</u>	
Current:	
Salaries	220,375
Payroll taxes	18,646
Commissioners per diem	12,360
Employee benefits:	
SEP plan	8,042
Health insurance	18,798
Insurance	75,038
Professional services	34,152
Truck operations and maintenance	28,743
Materials and supplies	28,118
Office expense:	
Telephone	6,270
Utilities	3,339
Office supplies	663
Sales tax collection fees	9,119
Uniforms	7,813
Advertising/Legal	3,524
Miscellaneous	30
Bank fees	24
Capital outlay	67,078
Intergovernmental	<u>11,934</u>
 Total expenditures	 <u>554,066</u>
 Excess of revenues over (under) expenditures	 242,346
 <u>FUND BALANCES</u>	
Beginning of year	<u>1,192,754</u>
 End of year	 <u>\$ 1,435,100</u>

The accompanying notes are an integral part of this statement.

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUAL - GENERAL FUND**

**Gravity Drainage District No. 1 of the Parish of Livingston, State of Louisiana
A Component Unit of the Livingston Parish Council**

For the Year Ended December 31, 2002

	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
<u>REVENUES</u>			
Taxes:			
Sales	\$ 480,000	\$ 455,859	\$ (24,141)
Ad valorem	277,000	289,748	12,748
Interest income from late payment of ad valorem taxes	1,600	1,860	260
Intergovernmental:			
State of Louisiana revenue sharing	32,100	21,332	(10,768)
Investment income	<u>27,000</u>	<u>27,613</u>	<u>613</u>
 Total revenues	 <u>817,700</u>	 <u>796,412</u>	 <u>(21,288)</u>
<u>EXPENDITURES</u>			
Current:			
Salaries	220,000	220,375	(375)
Payroll taxes	20,000	18,646	1,354
Commissioners per diem	12,000	12,360	(360)
Employee benefits:			
SEP plan	9,000	8,042	958
Health insurance	20,000	18,798	1,202
Insurance	68,000	75,038	(7,038)
Professional services	30,000	34,152	(4,152)
Truck operations and maintenance	27,000	28,743	(1,743)
Materials and supplies	31,000	28,118	2,882
Office expense:			
Telephone	7,000	6,270	730
Utilities	3,600	3,339	261
Office supplies	1,000	663	337
Sales tax collection fees	10,000	9,119	881
Uniforms	8,000	7,813	187
Advertising/Legal	4,000	3,524	476
Miscellaneous	1,000	30	970
Bank fees	0	24	(24)
Capital outlay	174,900	67,078	107,822
Intergovernmental	<u>10,300</u>	<u>11,934</u>	<u>(1,634)</u>
 Total expenditures	 <u>656,800</u>	 <u>554,066</u>	 <u>102,734</u>
 Excess of revenues over expenditures	 160,900	 242,346	 <u>\$ 81,446</u>
<u>FUND BALANCES</u>			
Beginning of year	<u>1,192,754</u>	<u>1,192,754</u>	
 End of year	 <u>\$ 1,353,654</u>	 <u>\$ 1,435,100</u>	

The accompanying notes are an integral part of this statement.

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

Gravity Drainage District No. 1 of the
Parish of Livingston, State of Louisiana

A Component Unit of the Livingston Parish Council

December 31, 2002

Note 1 - ORGANIZATION, NATURE OF OPERATIONS, AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES

a. Organization and Nature of Operations:

Gravity Drainage District No. 1 of the Parish of Livingston, State of Louisiana ("the District") was created November 22, 1969, by the Livingston Parish Council, as provided by Louisiana Revised Statute 38:1751. A board of five commissioners who are appointed by the Livingston Parish Council governs the District. For the year 2002, the District's regular staff consisted of ten employees, not including its commissioners or the manager. The District is authorized to construct, maintain and improve the system of gravity drainage (approximately 360 miles) within Ward Two of Livingston Parish, Louisiana. The main office for the District is located in Denham Springs, Louisiana.

b. Reporting Entity:

The Livingston Parish Council is the financial reporting entity for Livingston Parish, Louisiana. The Livingston Parish Council appoints a voting majority of the District's governing body and can impose its will on the District. Accordingly, the District has been determined to be a component unit of the Livingston Parish Council.

The accompanying financial statements present information only on the funds maintained by the District and do not present information on the Livingston Parish Council, the general government services provided by that governmental unit, or the other governmental units that comprise the financial reporting entity for Livingston Parish, Louisiana.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(continued)

b. Reporting Entity: - (continued)

The District has no entities or organizations that are required to be included in its financial report as component units as defined by Governmental Accounting Standards Board Statement 14.

c. Basis of Statement Presentation:

The accounting and reporting policies of the District conform to generally accepted accounting principles (GAAP) of the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In addition, the accounting and reporting procedures conform to the requirements of Louisiana Revised Statutes 24:514, the *Louisiana Governmental Audit Guide*, and to the industry audit guide, *Audits of State and Local Governmental Units*.

d. Fund Accounting:

The District uses funds and account groups to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain governmental functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. Funds of the District are classified as governmental funds. Governmental funds account for the District's general activities, including the collection and disbursement of specific or legally restricted monies, the acquisition or construction of general fixed assets, and the servicing of general long-term debt. The governmental funds presented in the financial statements are described as follows:

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(continued)

d. Fund Accounting: - (continued)

Governmental Fund Types

General Fund:

The General Fund is the general operating fund of the District and accounts for all financial resources, except those required to be accounted for in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid for through other funds are paid from the General Fund. The General Fund was the only fund used by the District in 2002.

e. Account Groups:

An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The following two account groups are not "funds".

General Fixed Assets:

The fixed assets used in governmental fund type operations of the District are accounted for (capitalized) in the General Fixed Assets Account Group and are recorded as expenditures (capital outlays) in the governmental fund types when purchased or constructed.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(continued)

f. **Basis of Accounting:**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financial uses) in net current assets. The modified accrual basis of accounting is used by the governmental funds. The governmental funds use the following practices in recording revenues, expenditures, and transfers.

Revenue Recognition

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both "available and measurable." Available means due or past due and receivable within the current period, and collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period (normally within 60 days unless special circumstances indicate otherwise). Measurable means the amount can be determined.

The following are the revenue recognition policies used by the District:

- **Ad valorem taxes** are recorded as receivables and deferred revenues at the time the tax levy is billed. Revenues are recognized as the property taxes are received by the District from the Parish Sheriff's office. In accordance with the modified accrual basis of accounting, the District also recognizes ad valorem tax revenues as current year revenues if they are received within sixty days of year-end.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(continued)

f. Basis of Accounting: - (continued)

Revenue Recognition - (continued)

The property tax revenues reported in these financial statements do not include any amounts that are due and remain uncollected by the Sheriff. However, property tax revenues include amounts withheld by the Sheriff to make "on-behalf payments for fringe benefits" which represent the District's pro-rata share of retirement plan contributions for other governmental units. (See Note 8)

- Investment income is composed of interest income, realized gains and losses on the sale of investments, and changes in the fair value of investments. Interest income is recorded when it is both measurable and available. Realized gains and losses on the sale of investments are recorded at the time of sale. Changes in the fair value of investments are recorded based on the current share price of the open-end mutual fund.
- State revenue sharing and sales tax revenues are recognized when they are both measurable and available to finance expenses of the current fiscal year. However, State revenue sharing is recorded as a receivable and a deferred revenue at the time the District receives notification from the Parish that it qualifies to receive payments during the current year. As the payments are made available to finance expenses of the current year, they are moved from deferred revenues into revenues of the current period.

Expenditures

Expenditures are recognized in the accounting period in which the liability is incurred, if measurable.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(continued)

g. *Budgetary Policy and Budgetary Accounting:*

The District prepares an annual operating budget on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles (GAAP). The District's budget process also has to follow the requirements of state law as set forth by the Louisiana Local Government Budget Act.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- Before the second Tuesday of November, the District prepares a budget for the next fiscal year that begins January 1. The operating budget includes proposed expenditures and the means of financing them.
- The board members discuss the proposed budget at the regular meeting of the Board of Commissioners on the second Tuesday of November and set the date for the special public hearing on the proposed budget.
- The public hearing to review and discuss the budget is held immediately before the regular meeting of the Board of Commissioners on the second Tuesday in December. The public hearing for the District's 2002 budget was held on December 12, 2001. The public hearing for the District's 2003 budget was held December 10, 2002.
- During its regular meeting that follows the public hearing, the Board of Commissioners adopts the budget.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(continued)

g. Budgetary Policy and Budgetary Accounting: -
(continued)

Once the budget is approved, it can be amended by approval of a majority of the Board of Commissioners. The process of presenting and approving budget amendments follows a procedure similar to the one used to adopt the initial budget. There was one amendment made to the budget that was initially adopted for 2002. The amendment was approved at a regular meeting of the District's Board of Commissioners on December 10, 2002.

All budget appropriations lapse at year-end.

h. Cash and Cash Equivalents:

Cash includes amounts in demand deposits, interest-bearing demand deposits, and time deposits. Cash equivalents include amounts in time deposits and those investments with original maturities of three months or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States. Cash and cash equivalents are presented at cost in the District's balance sheet.

i. Investments:

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the District's investment policy. If the original maturities of investments exceed three months, they are classified as investments; however, if the original maturities are three months or less, they are classified as cash equivalents.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(continued)

i. Investments: - (continued)

GASB Statement 31 requires the District to report its investments at fair value on the balance sheet except for investments in non-participating interest-earning contracts, such as non-negotiable certificates of deposit with redemption terms that do not consider market rates. This type of investment is reported using a cost-based measure, provided that the fair value of the contract is not significantly affected by the impairment of the credit standing of the issuer or other factors.

j. Prepaid Items:

The District uses the nonallocation method to account for prepaid items. Under this method, the entire payment for the prepaid item is treated as a current expenditure even though future periods benefit from the advance payment.

k. General Fixed Assets and Depreciation:

General fixed assets include any land, buildings, equipment, and vehicles owned by the District. All fixed assets are valued at historical cost or estimated historical cost, if historical cost is not available. No costs have been estimated because historical cost information was available for all fixed assets. In cases where assets are constructed with borrowed money the interest expense paid on the related debt is capitalized as part of the cost of the asset. No depreciation has been provided on assets in the General Fixed Assets Account Group.

It is the District's policy to capitalize purchases of moveable property costing at least \$1,000 and purchases of real property and improvements costing at least \$1,500.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(continued)

1. Infrastructure:

The District has elected not to capitalize infrastructure. Infrastructure, or public domain general fixed assets, are immovable assets generally of value only to the state or local government. Drainage systems are considered infrastructure. Therefore, new drainage systems and major improvements to existing systems, including related permit applications and environmental impact mitigation fees, are recorded as capital outlays of the General Fund but are not included in the General Fixed Asset account group.

m. Vacation and Sick Leave:

All permanent full-time employees earn from 10 to 20 days of vacation leave each year on their anniversary date depending upon the number of years employed.

Vacation leave cannot be accumulated beyond one year. The District has not accrued any expenses relating to unused leave in the financial statements because earned but unused vacation was not a significant amount. The cost of current leave privileges is recognized as a current year expenditure in the General Fund when the leave is actually used.

n. Transfers and Interfund Loans:

Transfers are advances between funds that are not expected to be repaid. In cases where repayment is expected, the advances are accounted for through various "due from" and "due to" accounts.

o. Reservations and Designations of Fund Balances:

Reserved fund balances represent those portions of the fund balance that are either not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources as approved by the Board of Commissioners.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
(continued)

p. Management's Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

q. Total Column on the Statements:

The total columns in the General Purpose Financial Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations, in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 2 - CASH AND CASH EQUIVALENTS

At December 31, 2002, the District has cash and cash equivalents totaling \$789,143, as follows:

Petty cash	\$ 100
Interest bearing demand deposits at Hancock Bank	284,868
Certificates of deposit at Hibernia National Bank	<u>504,175</u>
Totals	<u>\$789,143</u>

The interest bearing demand deposits at Hancock Bank are represented by one account which had a bank balance of \$289,849. The first \$100,000 of this balance is covered by federal deposit insurance. Accordingly, this amount is classified as a Category 1 type credit risk by GASB Statement 3. Hancock Bank has pledged securities to cover the uninsured \$189,849 of deposits. GASB Statement 3 categorizes these deposits as a Category 2 type credit risk because the pledged securities are held in the District's name by custodial banks acting as agents of Hancock Bank.

Note 2 - CASH AND CASH EQUIVALENTS - (continued)

The certificates of deposit at Hibernia National Bank represent nonparticipating interest-earning investment contracts as described in GASB Statement 31. Accordingly, they have been reported at cost in these financial statements.

The certificates of deposit are secured from risk by \$100,000 of federal deposit insurance (Category 1) and a pledge of securities by Hibernia National Bank that have a fair market value of \$446,772. The amount of deposits that have been collateralized by a pledge of securities is also a Category 1 type credit risk because the pledged securities are held in the District's name by custodial banks that are mutually acceptable to both Hibernia National Bank and the District.

Under state law, bank deposits must be secured by federal deposit insurance or the pledge of securities that are owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal or exceed the amount on deposit with the fiscal agent bank. According to Louisiana Revised Statute 39:1224, the pledged securities are to be held in the name of the pledging fiscal agent bank at a holding or custodial bank that is mutually acceptable to both parties.

Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank (entity holding the pledged securities) to advertise and sell the pledged securities within 10 days of being notified by the District that the District's bank has failed to pay deposited funds upon demand.

Petty cash of \$100 is unsecured.

Note 3 - INVESTMENTS

The District's primary purpose for investing is to earn interest income on money that has been determined to be in excess of immediate cash needs. Louisiana Revised Statute 33:2955 sets forth a list of the types of investments in which a political subdivision may invest its temporarily idle funds.

Note 3 - INVESTMENTS - (continued)

Investments at December 31, 2002 consisted of the following:

Type of Investment	Reported Amount	Maturity	Interest Rate
Certificates of Deposit:			
Hancock Bank	\$ 95,806	01/03/03	1.83%
Hancock Bank	116,550	01/02/03	1.83%
Mutual Funds:			
Daily Passport Cash Trust	89,369	Demand	0.62%
Putnam U.S. Govt. Income Trust	87,772	Demand	Various
	<u>\$ 389,497</u>		

The fair values of the District's investments do not materially differ from their reported amounts.

At December 31, 2002, the District had invested \$212,356 in certificates of deposit at Hancock Bank. The certificates of deposit represent nonparticipating interest-earning investment contracts as described in GASB Statement 31. Accordingly, they have been reported at cost in these financial statements.

The certificates of deposit are secured from risk by \$100,000 of federal deposit insurance (Category 1) and a pledge of securities by Hancock Bank for the remaining \$112,356. The amount of deposits that have been collateralized by a pledge of securities is a Category 2 type credit risk because the pledged securities are held in the District's name by a custodial bank that is an agent of Hancock Bank.

The \$89,369 held in the Edward D. Jones "Daily Passport Cash Trust" money market mutual fund account is protected up to \$500,000 by the Securities Investor Protection Corporation, a non-profit corporation created by Congress that receives revenues from the broker-dealers who are required by law to be SIPC members. SIPC provides protection in the event that Edward D. Jones fails financially and is unable to meet its obligations to its customers. SIPC protection does not cover any decreases in the net asset value of the shares of the money market mutual fund produced by market fluctuations. Accordingly, the District is at risk for any amounts held in the money market mutual fund. As of December 31, 2002, 84.17% of the Daily Passport Cash Trust's investment portfolio consisted of securities which were direct U.S. Treasury obligations and obligations of other U.S. Government agencies.

Note 3 - INVESTMENTS - (continued)

The Putnam U.S. Government Income Trust mutual fund invests only in U.S. Government Securities, such as; obligations issued directly by the U.S. Treasury and obligations issued or guaranteed by U.S. government agencies. There were no sales of this mutual fund during the year; however, \$4,069 of dividends earned were reinvested to buy more shares of the fund.

The District's mutual fund investments have not been assigned a category of credit risk similar to the other investments because this type of investment is not evidenced by securities that exist in physical or book entry form.

The fair value of the Putnam U.S. Government Income Trust mutual fund increased by \$2,215 during 2002. This unrealized gain has been recorded as a component of investment income in the current year's statement of revenues, expenditures, and changes in fund balance.

At December 31, 2001, the District owned an investment in U.S. Treasury bonds that it had purchased on May 13, 1999 for \$75,513. On August 15, 2002, all of this investment was redeemed for \$88,000. The proceeds were invested in the Daily Passport Cash Trust.

Note 4 - RECEIVABLES

The following is a summary of General Fund receivables at December 31, 2002:

Ad valorem taxes	
Allowance for uncollectible taxes	\$265,578
Sales tax	(13,821)
State revenue sharing	30,060
	<u>35,269</u>
Total receivables	\$317,086

The receivable for ad valorem taxes consists of delinquent taxes from 2002. Because these taxes are already delinquent, management has set up an allowance account using an estimate based upon historical collection experience. The rate used to estimate the allowance for 2002 was 4.64% of the total ad valorem taxes receivable. Current tax collections for the year 2002 through February 28, 2003, have totaled about 90% of the gross tax levy. Ad valorem tax collections from prior years that were remitted to the District by the Livingston Parish Sheriff and Tax Collector between January 1 and February 28, 2003, are also included as ad valorem taxes receivable.

Note 4 - RECEIVABLES - (continued)

The receivable for sales tax consists of taxes for December 2002 remitted by the Livingston Parish School Board in January 2003. The receivable for State revenue sharing includes all of the funds due to the District for 2002. Management has deemed it unnecessary to set up an allowance for uncollectible accounts for the sales tax and state revenue sharing receivables because of the certainty of their collection.

Note 5 - AD VALOREM TAXES

In July 2001, the voters, who live within the boundaries of Gravity Drainage District No. 1 of Livingston Parish, Louisiana, passed a 5 mill (\$5 per \$1,000 of assessed valuation) ad valorem tax to provide operating funds for the District. The tax is effective for a ten-year period (2001-2010).

The ad valorem taxes are levied each November 15 on the taxable assessed value listed as of the prior January 1 for all real and business personal property located within the boundaries of Gravity Drainage District No. 1. Taxable assessed value represents the appraised value of the property less exemptions allowed by law. The Livingston Parish Assessor periodically determines the appraised values.

As of January 1, 2002, the assessed value of the property located within Gravity Drainage District No. 1 of Livingston Parish, Louisiana, was approximately \$59,606,250. For 2002, the District's management elected to assess the maximum 5 mills to finance the operations of the District.

Taxes are due on November 15, the levy date, and they become delinquent on the following January 1. The taxes are generally collected in December of the current year and January through March of the following year. During late April or May, of the year following the year the tax was levied, the Sheriff's office sends out delinquent notices to the property owners. Soon after the Sheriff has mailed the delinquent notices, he will publish them in the newspaper. After a second publication in the newspaper and at least 30 days from the date of the first publication, the property is advertised for auction. The auction usually takes place in May or June. Properties sold at auction have liens placed on them by their buyers. The Parish will put a lien on any properties not sold at the auction.

Note 6 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	Balance 01-01-02	Additions	Deletions	Balance 12-31-02
Equipment	\$585,923	\$ 9,229	\$ (8,035)	\$ 587,117
Vehicles	158,432	49,737	(13,000)	195,169
Building	86,639	-	-	86,639
Land	60,000	-	-	60,000
Furniture & Fixtures	<u>8,331</u>	<u>1,403</u>	<u>(2,181)</u>	<u>7,553</u>
	<u>\$899,325</u>	<u>\$ 60,369</u>	<u>\$ (23,216)</u>	<u>\$ 936,478</u>

Effective January 1, 2002, management changed the accounting policy relating to the District's capitalization threshold for movable fixed asset purchases by increasing the threshold to \$1,000 per individual asset from \$250. This change was made to reduce the administrative burden of managing small dollar assets when the District implements GASB Statement 34 and to keep up with the trend of increasing capitalization thresholds by local, state, and federal governments. The change did not have any effect on the current year's operations. However, the cumulative amount of movable fixed assets that have been deleted from the "investment in fixed assets" component of the District's fund equity as a result of this change was \$9,936. This amount has been included in the current year's deletion total of \$23,216 in the schedule here above.

Note 7 - RETIREMENT PLANS

The District's employees participate in the Federal Social Security program, thus the District is required to remit an amount equal to the employee's contribution. For 2002, the current rate of contributions was 7.65% of an employee's gross pay until the employee's annual gross pay equaled \$84,900. The rate is reduced to 1.45% of an employee's gross pay for amounts that exceed \$84,900. The District does not guarantee any of the benefits granted by the Federal Social Security program. None of the District's employees' wages exceeded \$84,900 this year.

Note 7 - RETIREMENT PLANS - (continued)

On January 1, 1996, the District adopted the Putnam Prototype Simplified Employee Pension Plan (SEP) for its employees. Under this defined contribution plan, the District's Board of Commissioners establishes individual retirement accounts with Putnam Investments for each eligible employee to whom the District will make a contribution as determined on a year-to-year basis. Because contributions are made to individual retirement accounts, all contributions received by an employee are 100% vested. The employee may select between several investment options. The District does not guarantee the results of these investments. The District's Board of Commissioners voted to contribute 9.0% of eligible wages (\$89,356) for 2002.

Accordingly, the District contributed \$8,042 for the employees who were eligible to participate in 2002. Total gross payroll for all employees, including commissioner per diems, for the year was \$232,735. The employees eligible to participate in the plan cannot elect to contribute to the plan. The District must make all contributions.

Contributions cannot exceed the lesser of 25% of each eligible employee's compensation, excluding compensation in excess of \$200,000, or \$40,000. Eligible employees include anyone at least age 21 who has worked for the District three of the last five years, and received at least \$450 of wages during the year. Members of the Board of Commissioners are not eligible to participate in the SEP.

Note 8 - ON-BEHALF PAYMENTS FOR FRINGE BENEFITS

Because the District is one of several governmental agencies receiving proceeds from a property tax assessment, it has to bear a pro-rata share of the pension expense relating to the public employees of Livingston Parish who participate in the Parochial Employee's Retirement System. The District's pro-rata share of the required contribution was \$11,934. This amount was withheld by the Sheriff from property tax collections to satisfy the District's obligation as an "intergovernmental" expenditure of the General Fund in these financial statements. As described in Note 1f, the District has also increased its ad valorem tax revenues by the same amount of the intergovernmental expenditure. None of the District's employees participate in or benefit from any pension plan relating to this expenditure.

Note 9 - CONTINGENCIES

The District is a defendant in a lawsuit wherein the plaintiff alleges that her property was damaged. The District's management and attorney have consulted and decided to vigorously defend this lawsuit. No estimate of any potential liability to the District can be made at this time; however, the District has insurance coverage for this incident and management believes the coverage is more than adequate to cover any damages should the District not prevail.

Note 10 - INCOME TAXES

The District is exempt from all Federal and Louisiana income taxes.

Note 11 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has purchased commercial insurance to cover or reduce the risk of loss that might arise should one of these incidents occur. There have been no significant reductions in coverage from the prior year. No settlements were made during the current or prior three fiscal years that exceeded the District's insurance coverage.

The District's management has not purchased commercial insurance or made provision to cover or reduce the risk of loss, as a result of business interruption and certain acts of God, like floods or earthquakes.

Note 12 - RELATED PARTY TRANSACTIONS

There were no related party transactions in 2002.

Note 13 - DESIGNATION OF FUND BALANCE

The Board of Commissioners has designated money towards the Gray's Creek Diversion project. This project is necessary to alleviate flooding which frequently occurs in Livingston Parish, Louisiana. The State of Louisiana is expected to provide a grant for this project in the next one to two years and the District will be required to provide matching funds to receive the grant. Until the money is needed, management has invested the money in a certificate of deposit, which has a value of \$131,258 at December 31, 2002, and is included as a cash equivalent of the General Fund.

Note 14 - PER DIEM PAID BOARD MEMBERS

Each member of the Board of Commissioners receives a per diem allowance for attending each regular or special meeting of the board, not to exceed 36 meetings in one calendar year. For meetings held January 1, 2002 to March 12, 2002, Commissioners received \$60 per meeting. For meetings held after March 12, 2002, the per diem was increased to \$100 per meeting. Per diems were paid to the commissioners for the year ended December 31, 2002, as follows:

<u>Commissioner</u>	<u>Number of Meetings</u>	<u>Amount Received</u>
Norman Fogg	26	\$2,400
David Gros	24	2,240
Richard Miller, Jr.	28	2,560
George Provost	28	2,600
Jessie Wheat	28	2,560
Total		<u>\$12,360</u>

Note 15 - NEW REPORTING STANDARD

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments." This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require new information and restructure much of the information that governments have presented in the past.

Comparability with reports issued in all prior years will be affected. The District is required to implement this standard for the fiscal year ending December 31, 2003. The District has not yet determined the full impact that adoption of GASB Statement 34 will have on the financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Gravity Drainage District No. 1 of the Parish of Livingston, State of Louisiana A Component Unit of the Livingston Parish Council

For the Year Ended December 31, 2002

I have audited the financial statements of Gravity Drainage District No. 1 of the Parish of Livingston, State of Louisiana, as of and for the year ended December 31, 2002, and have issued my report thereon dated May 20, 2003. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My audit of the financial statements as of and for the year ended December 31, 2002 resulted in an unqualified opinion.

Section I - Summary of Auditor's Reports

- a. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control:

Material Weaknesses	_____	Yes	<u>X</u>	No
Reportable Conditions	_____	Yes	<u>X</u>	No

Compliance:

Compliance Material to Financial Statements	___	Yes	<u>X</u>	No
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- b. Federal Awards

There were not any federal awards. This section is not applicable.

- c. Identification of Major Programs:

This section is not applicable.

Section II - Financial Statements Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

This section is not applicable.

Section IV - Management Letter

A management letter, containing minor findings, was issued by the auditor. It has been included later in this reporting package.

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Gravity Drainage District No. 1 of the
Parish of Livingston, State of Louisiana

A Component Unit of the Livingston Parish Council

For the Year Ended December 31, 2002

Section I - INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE
FINANCIAL STATEMENTS

There were not any findings reported last year.

Section II - INTERNAL CONTROL AND COMPLIANCE MATERIAL TO
FEDERAL AWARDS

Not applicable.

Section III - MANAGEMENT LETTER

No management letter was issued last year.

NEIL G. FERRARI

CERTIFIED PUBLIC ACCOUNTANT
14481 OLD HAMMOND HIGHWAY, SUITE 4
BATON ROUGE, LA 70816

MEMBER OF THE
SOCIETY OF LOUISIANA CPAS

MEMBER OF THE
AMERICAN INSTITUTE OF CPAS

PHONE (225) 272-1177

MANAGEMENT LETTER

May 20, 2003

To the Board of Commissioners,
Gravity Drainage District No. 1 of the Parish of Livingston,
State of Louisiana

I have audited the general-purpose financial statements of the Gravity Drainage District No. 1 of the Parish of Livingston, Louisiana, (the District) as of and for the year ended December 31, 2002, and have issued my report thereon dated May 20, 2003. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As part of my audit, I issued a report on the general-purpose financial statements, dated May 20, 2003 and a report on internal control and compliance over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards* dated May 20, 2003.

In planning and performing my audit of the general purpose financial statements of the District for the year ended December 31, 2002, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control. However, I noted certain matters involving the design and operation of the District's internal control that I consider important enough to report to you. For the current audit, none of the matters adversely affected the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the general-purpose financial statements. However, unless management acts to remedy the deficiencies, the matters could increase the risk of future financial statements being materially misstated.

My consideration of the District's internal control would not necessarily disclose all matters in internal control that might be a reportable condition to management and, accordingly, would not necessarily disclose conditions that are also material weaknesses. In addition, my tests of compliance would not necessarily disclose all instances of noncompliance that may have occurred during the year.

The following items represent weaknesses in the District's internal control that I detected through my audit tests. Here below, I have described each matter and what I recommend management do to correct the weakness. I will report on the status of management's corrective action of these items in next year's audit.

INTERNAL CONTROL WEAKNESSES

IC-1: Procedural Breakdowns Were Noted in the District's Internal Controls

Internal control procedures are not being followed as contemplated. During my review of disbursements, I noticed that there was not always adequate supporting documentation for all disbursements. The main problems related to distributors that Gravity uses on a frequent basis. The employees of the District charge day to day expenses on a charge account and then the vendor bills Gravity on a monthly basis. Out of 40 disbursements tested, three did not have all supporting receipts attached to the invoice.

A second problem noted was that not all invoices had a purchase order attached to each disbursement. Out of 40 disbursements tested, three invoices did not have all of the necessary purchase orders attached.

These results caused me to expand my procedures and look for supporting documentation for disbursements made in November and December. I continued to find the same patterns of missing purchase orders in these two months. Eighteen out of 66 invoices did not have purchase orders attached to them. These eighteen do not include monthly invoices for items such as telephone and electric bills, which would not be expected to have a purchase order attached to them.

Recommendations:

I recommend that management do a better job of ensuring that all supporting documentation (receipts and purchase orders where necessary) are submitted to the bookkeeper before he pays the bills.

IC-2: SEP Plan Administration Policy Does not Match the Tax Laws of SEP Plans

I noticed in your August 13, 2002 board minutes that you had adopted a SEP policy which would make an employee eligible for a SEP contribution beginning in the first full quarter following their second anniversary of the permanent date of hire. This resulted in two employees receiving a contribution equal to 9% of their fourth quarter wages for 2002. Unfortunately, the qualifying period for a SEP plan is based on a calendar year, rather than an anniversary year and needs to be followed that way. This is the second year that your policy has been followed, resulting in excess contributions for 2002 (\$1,123) and 2001 (\$1,170). I am hoping that the following example will help to clarify the operation of a SEP plan.

Example:

ABC Company, a calendar year company, maintains a SEP plan. Joe started working for ABC on October 1, 1999. Joe worked 400 hours in 1999 and 2,000 hours in 2000, 2001 and 2002. If Joe is at least age 21 and earned \$450 or more in 2002, he must participate in the SEP plan for all of 2002. This means that his wages for all of 2002 would be multiplied by the annual contribution rate.

Recommendations:

I recommend that management double-check with Scott Landry's office to verify the eligibility and contribution rules relating to the SEP plan the District has through his office. Afterwards, the District should modify its policies and procedures to better comply with the SEP tax laws.

This report is intended solely for the use of the District's Board of Commissioners, management, the Livingston Parish Council, and the Legislative Auditor of the State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Neil G. Ferrari, CPA

MANAGEMENT'S CORRECTIVE ACTION PLAN

Gravity Drainage District No. 1 of the
Parish of Livingston, State of Louisiana

A Component Unit of the Livingston Parish Council

To the following oversight agencies for audit:

State: Legislative Auditor of the State of Louisiana
Local: Livingston Parish Council

Gravity Drainage District No. 1, Denham Springs, Louisiana,
respectfully submits the following corrective action plan for the
year ended December 31, 2002.

Name and address of independent public accounting firm: Neil G.
Ferrari, CPA, 14481 Old Hammond Highway, Suite 4, Baton Rouge,
Louisiana, 70816.

Audit period: For the year ended December 31, 2002.

The findings from the December 31, 2002 schedule of findings and
questioned costs and management letter are discussed below.

**REPORTABLE CONDITIONS IN INTERNAL CONTROL AND COMPLIANCE
DEFICIENCIES**

There were no findings reported by the auditor that would
require management to respond with corrective action in
this section.

**INTERNAL CONTROL AND COMPLIANCE DEFICIENCIES MATERIAL TO FEDERAL
AWARDS**

There were no findings reported by the auditor that would
require management to respond with corrective action in this
section.

MANAGEMENT LETTER

Internal Control Weaknesses

**IC 1 - Procedural Breakdowns Were Noted in the District's
Internal Controls**

Management acknowledges the auditor's findings in this
area and will seek to follow its procedures more
closely in the future.

IC 2 - SEP Plan Administration

Management acknowledges the auditor's findings in this area and will meet with Scott Landry's office to resolve the matter.

If there are any questions regarding this corrective action plan, please call Randy Smith, the District's Administrative Secretary, at (225) 664-7579